

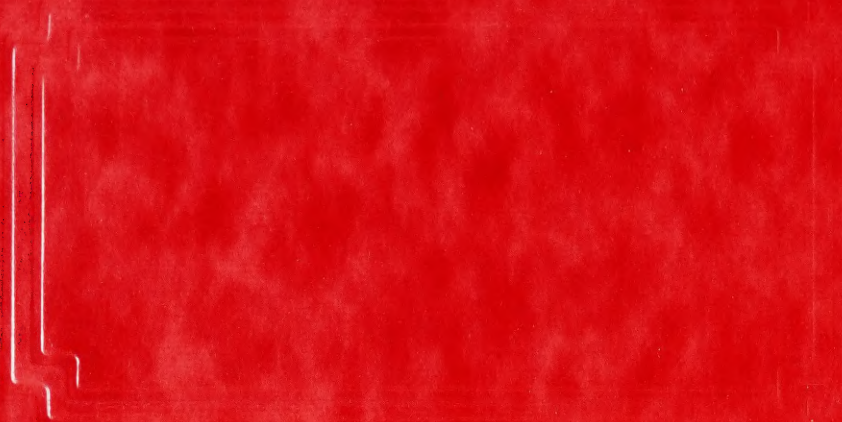
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Canada. Parliament. House of Commons.  
Standing Committee on Finance, Trade  
and Economic Affairs  
[Submissions]

N.F.U. 1969



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Government  
Publications

National Farmers Union

Submission

to the

Canada, Parliament

House of Commons Committee

Finance, Trade and Economic Affairs

on the subject of

Interest Rates

[Submissions]



Ottawa, Canada,

November 18, 1969



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National Farmers Union

Submission

to the

House of Commons Committee

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Ottawa, Canada,

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Introduction

We wish, at the outset, to express our appreciation to your committee for agreeing to meet representatives of our organization on the matter before the committee.

The National Farmers Union, as many of you may know, is currently in a stage of reorganization from a federated organization into a direct farmer-member organization. This involves the integration of members in present and former provincial farm unions into the NFU and the structuring of an effective administrative system. As can be appreciated, all our officers are heavily engaged in completing this task. Your patience and courtesy is therefore much appreciated.

Classes of Borrowers

The current level of interest rates is perhaps the highest on record, both in terms of cost of borrowed money and the return from invested money. It logically follows, therefore, that the effect of high interest rates may favor the investor but militates heavily against some borrowers.



While it is perhaps an over-simplification, in our view there are two main classes of borrowers. There is that class which may borrow funds for capital expansion for productive purposes. If it is able to control its levels of production and asking prices within the framework of a managed market situation, this class of borrower may, in fact, recover its higher interest costs in the asking price for its products and may even exploit the higher rate of interest as a profit centre.

Within this main class of borrowers is the corporate sector among which there are some who generate from their operations sufficient profits to finance their total capital requirements. However, because interest rates are currently very high on the investment market and because our tax laws permit a 50% cost exemption on interest rates, it is also conceivable that such corporations invest their profits at, for example, an 8% interest rate and borrow capital needs at 9%, subsequently reduced to 4 1/2% through tax concessions. Further, if the 8% investments happen to be government bonds, a double cost to the taxpayer, in fact, results.

The second main class of borrower is in reality exploited by the first. Included in this group are not only farmers, but small business firms, all persons living on fixed incomes at or below the poverty line and most other tax paying citizens of Canada.

While it is said that the objective of raising interest rates is to ration money more discriminately for the purpose of dampening or enhancing the business cycle, the only borrowers, in our view, adversely affected, are those who do not generate sufficient of their own capital requirements and therefore must bear the brunt of counter-cyclical monetary policies.



## Interest Rates and the Farmer

Farmers are among that class against whom high interest rates militate most heavily. The Federal Task Force on Agriculture in its paper on Credit presented to the Canadian Agricultural Congress in March, 1969, reproduced the following table indicating the ratio between farm debt and investment in the period 1960-67.

Table 1

### The Ratio of Farm Debt to Farm Investment

Year	Farm Debt	Investment in Farm Real Estate, Machinery and Livestock	Debt as a Per Cent of Investment
	-- millions of dollars --		%
1960	1,588.9	12,680.0	12.5
1961	1,768.4	13,159.2	13.4
1962	1,991.9	13,684.0	14.6
1963	2,261.9	14,541.0	15.6
1964	2,568.9	15,790.1	16.3
1965	2,947.7	17,286.8	17.1
1966	3,375.7	19,224.0	17.6
1967	3,859.9	21,186.0	18.2

Source: Rust, R.S. Farm Credit Revised  
Canadian Farm Economics, Vol.3, No.4.  
October, 1968.

From this table it is evident that credit has played an important role in farm enterprise in this country. From this table it is also evident that the farming industry as a whole has not been able to generate sufficient levels of profit to finance its own recapitalization while the debt load as a percentage of investment has increased from 12.5% in 1960 to 18.2% in 1967.

Interest payments made by farmers in the corresponding period 1960-1967 increased from \$96.2 million to \$234.5 million. In the year 1968, interest on



farm indebtedness was \$250.9 million.

Clearly interest charges are a major cost item for the farmer. In the period 1960 to 1968, interest rates have increased from 5.7% of total operating expenses to 9.3%.

Government-backed or financed loans have, in past, played an important role in farm credit through such programs as the Farm Improvement Loans Act and the Farm Credit Corporation.

Until recent years, these loans could be procured for 5%. Last year the interest rate was increased to 7 1/2% and 7 3/4%. At these rates, the government backed FILA loans are not getting into the hands of farmers, for bank rates range from 9 1/2% to 9 3/4%.

Some farmers have been asked by their banks to sign new demand notes at rates of 9% and over on balances which were contracted at 5%.

### The Farmer and Inflation

This committee has discussed the subject of inflation psychology. To the farmer inflation is more than a state of mind-- it is a fact. But he is more than a consumer; he is also a producer.

The farmer has traditionally faced the economic dilemma of rising costs and falling farm prices and has endeavored to adjust to the situation. His ability to do so is becoming increasingly more difficult, depending on the particular type of production in which he happens to be engaged.

a) If he is a grain farmer, has a high investment in land and machinery, suffers rising costs but cannot market his production which is costing him money to store while at the same time it is declining in value and purchasing power, such a farmer becomes the victim not only of inflation but depression,



or what might be termed as a state of "economic over-kill".

b) If he is a milk producer experiencing rising costs of production, is locked in with high capital investment but is regulated in limiting his production capability by quotas, controls and the prospect of shrinking markets and support prices, he, too, is the double victim of inflation and depression.

c) If he is a livestock producer whose traditional method of livelihood is now being threatened because distortions in other sectors of farm production result in a sudden conversion of grain into meat production, and the inevitable oversupply and drop in market values, it becomes but a matter of time until the total farm economy has experienced the combined impact of inflation and depression, much of which has accrued from the effects of high interest rates.

The eventual result of allowing the present course of inflation and depression to dominate the farm economy can only lead to the further breakdown of rural communities and widening regional disparities.

If indeed we need to attribute the farmer's current economic problems to a form of psychology, it has rather been one of production psychology than inflation psychology. He has been encouraged to maximize his productive efficiency, (which can only be measured in terms of greater output) by every level of the commercial agri-business community, by the extension divisions of universities and departments of agriculture and by politicians themselves. This, we are told, is the only way in which farmers can survive in a so-called free enterprize market economy.

But clearly the free enterprize market competitive economy in which farmers are expected to operate is now limited to the sale of their products and confined to the effects created among farmers not only because of their own behavior but their combined behavior.



The concepts of this ancient doctrine have been considerably sophisticated within the concepts of the manner in which the corporate sector does business, not only with the farmer but with the public at large.

The oil industry has a service station on every other intersection. Frequently there are two and even four. One in five would be adequate. The prices of the products are managed, for corporations have long realized that price competition, in the traditional sense, is profit-destroying. Does it represent the most efficient use of economic resources to have such over-expansion and under-utilization of facilities? This, then, raises the question of the misuse of resources and the resulting distortions.

Supermarkets abound and locate in such a manner as to effect market saturation which in fact of efficiency levels, represents over-saturation. Is the construction of redundant retail facilities not, in fact, in itself inflationary when it must, in the final result, be paid for by the common consumer whether he be a farmer or not? Does not the pressure of such built-in costs on the average citizen reflect on pressures which government experiences in raising the tax dollars necessary to meet commitments in the social sector such as health care, education costs and welfare programs for the needy? Does not the shortage of government revenues for these necessary commitments result in its need to increase interest rates on its bonds and go to that sector of the economy which has the money and allow itself, in effect, to be held hostage and taxed at increasing rates for the use of money?

We are, it appears to us, endeavoring to tackle the problem of inflation from the position that in order to do so, it must be achieved through the maintenance of an army of unemployed that will hold in check the



pressure on wage rates which, in turn, will act as a check on demands for higher wages by the employed sector. The price of high unemployment, however, creates other problems for government in the welfare field, thereby simply substituting one problem for another.

The government has established a Prices and Incomes Commission. One of its functions is to endeavor to obtain voluntary restraints on wages and prices. A credibility gap relative to the voluntary approach on these matters is already in evidence. Recent price increases in the steel and oil industry have been termed as "damned frustrating" by the Minister of Consumer and Corporate Affairs. Corporation profits, after taxes, were 18.7% higher in the first six months of 1969 than they were in the same period of 1968.

Clearly government does not currently have control over the pricing policies of giant corporations operating within this country. If government has the powers, and they do, to apply fiscal policies which could alter the course of inflation, they are not being applied.

We believe if the current inflationary spiral which is currently upon us is to be contained, government will have to take appropriate fiscal action to redirect the economic course presently guiding our monetary policies.

It is legitimate to say government has gone some distance in an endeavor to control its own spending as an anti-inflationary measure. However, since a large percentage of government spending is now in the areas of education, health care and social welfare, none of which should be altered for counter-cyclical purposes, government must now be courageous enough to demand,



and, if necessary, force the corporate sector to contribute its share to the desirable social objective of economic stability.

All of which is respectfully submitted by

THE NATIONAL FARMERS UNION.

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National Farmers Union

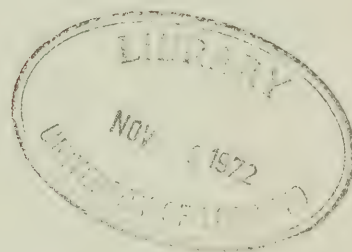
Submission

to the

House of Commons Committee

on

Finance, Trade and Economic Affairs



Ottawa, Canada

May 12, 1970



National Farmers Union  
Submission  
to the  
House of Commons Committee  
on  
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Ottawa, Canada  
May 12, 1970

1. The National Farmers Union accepts the opportunity of presenting its views on the White Paper on Taxation of November 7th last, with particular emphasis on the manner in which some of these proposals on tax reform will affect farm people.

Farming-- An Exploited Industry

2. We believe there are several important factors which distinguish the farming industry from other forms of productive enterprise in Canada.
3. The emphasis of our national agricultural policy has been to draw farm people from the land into the industrial centres of the nation. In this respect, Canadian objectives have not varied appreciably from those of other nations whose goals have been to transfer from an agricultural to an industrial economy.
4. As a consequence of National policy, farmers and farming have long been discriminated against in such a way as to hasten the exodus from the land by transferring the wealth produced from the land to the industrial economy. Low and unstable prices for farm products have at best returned a low return on the farmer's labour and invested capital. The variable level of cash return to the farmer; a highly imperfect market condition over which he has little or no control; and the unpredictable vagaries of nature have all contributed toward a situation which has encouraged movement out of farming.



5. Further, the farmer has not been able to compete successfully with the industrial sector in the payment of farm wages. Much farm work is seasonal; therefore unable to attract workers seeking secure employment. In recent years, the farm labor shortage has often proven critical.

6. Where full time employment of workers was required, farming was long discriminated against by law in offering to employees such benefits as workmen's compensation or unemployment insurance. Pension plans, too, were available in the industrial sector long before the introduction of the Canada Pension Plan which today is applicable to farmers and many farm workers. The farmer has long suffered discrimination and exploitation in this country.

#### Changes in the Organization of Farming

7. As a consequence of these various conditions and circumstances, the farmer has been forced to reinvest large amounts of his earnings from the sale of his products back into the productive plant of his farm. By replacing labor with capital in the form of increased mechanization and expanded land holdings, the farmer has expanded his productive efficiency.

8. In this sense, he has received the generous encouragement of government through lending programs which, in turn, contributed toward rising inflation in land prices but has unquestionably contributed greatly toward the rehabilitation or retirement funds of those farmers who liquidated their land holdings. It is our belief this has been more by government design than by accident. In this sense, many of those farmers remaining in farming today have made a great social contribution to the nation.



9. Nonetheless the principle has long ago been established. The displaced farmer, often with few assets, regarded his land holdings as his retirement fund. Similarly, the present day farmer has been forced by economic circumstances to reinvest his cash assets in order to maintain his levels of efficiency and productivity in the race against rising inflation and narrower margins of return on each unit of output.

10. As his non-liquid assets have increased, his options and opportunities to liquidate diminish. He has been forced into a savings trap from which escape becomes more difficult. His retirement fund has become "locked in".

#### The Impact of the Estates Tax

11. While reference is made to the farmer's equity in his farm as being his "pension fund", it is a fact that the entire farm family has a stake in the success of a farm operation and in thousands of instances unpaid family labor makes a substantial contribution to the capital worth of a farm.

12. In innumerable cases at least one and sometimes two or more sons may follow a father in taking over the operation of a farm while other members of the family seek occupations and professions elsewhere. The operation of the farm may continue undisturbed while contributing toward the support of the retired parents.

13. We believe this to be an ideal situation in perpetuating the concept of a family-farm-based food production industry.

14. The Estates Tax introduced in October, 1968, makes it extremely difficult to maintain such family units as viable and efficient farm units. Farm operations of \$100,000 value are now common. The Estates tax on an operation of this



size is \$15,600; \$32,700 on \$160,000, and so upwards until a tax of \$89,200 on \$300,000 plus 50% on the excess is reached.

15. As has been stated previously, during his lifetime a farmer is frequently cash short. The implication to a family upon the death of a father is liquidation of a portion of a viable farm unit in order to settle the Estates tax.

16. The seriousness of the problem in the maintenance of a family farm unit of the Estates Tax has already been recognized by the Alberta and Saskatchewan governments who are making refunds to estates of the provincial share of this tax.

#### Gift Tax and Capital Gains Tax

17. The White Paper, it appears, has anticipated the possible impact on the federal government's Estate Tax fortunes if too generous a Gift Tax exemption were allowed. In the context of maintaining a viable farm unit, the \$10,000 once-in-a-lifetime gift provision is, in our view, inadequate and should be increased to at least \$50,000.

18. While the current Estates Tax and proposed Gift Tax provisions in themselves present serious problems to the future maintenance of second generation farm units, the Capital Gains Tax will certainly assist in further disinheriting the farm family.

19. A partial sale of farm property may be required to settle the Estates Tax. Unless the farm then continues to be operated as an estate by a remaining son, the impact of the Capital Gains Tax may come into play. In circumstances where other members of a family demand settlement of an estate upon the death of a parent or parents, the son remaining on the farm will become the purchaser of the farm from the estate. The members of the estate (including the son) then



become liable for the payment of the Capital Gains Tax.

20. If such a transaction takes place ten or even twenty years from the day of valuation, the Capital Gains tax in such a situation might be substantial, requiring the family purchaser to pay tax on the land he purchases to the extent of his share of the estate.

21. A further factor related to the valuation of farm land for the future assessment of a Capital Gains Tax is the fluctuating price levels which can and do prevail in the sale of farm lands. Market values are at best imperfect. Economic and market conditions play key roles. Government policies relative to commodity supports and credit are further important factors.

22. An outstanding example at present is farming land in much of the prairie region. Few sales in farm land are taking place because of adverse market conditions. The farmer is truly "locked in". He cannot market grain and he cannot liquidate without substantial sacrifice.

23. Valuation today is certainly a far cry from valuation of three years ago. Valuation three years hence may be another matter, and on a present-day valuation, the "capital gain" of ten years hence might be extreme.

24. For the various reasons outlined above, we urge abandonment of a Capital Gains concept in the transfer and sale of farm property.

25. The above recommendation should not, however, in our view, exempt farm land from a Capital Gains Tax where the sale of land is made by an owner other than a person who is a farmer by profession, a retired farmer, or whose chief source of livelihood has been derived from the production of food on the land being sold. Land purchased for speculative gain through resale as industrial sites or use should be assessed a tax on Capital Gain.



26. The introduction of a Capital Gains tax to the recapture of depreciation deserves careful examination. Such a tax will render the straight line depreciation method less advantageous to the farmer than under the present method of taxation.

27. An outstanding example might be in the manner in which a Capital Gains Tax might apply in the trade-in by a farmer of an old farm implement for a new one.

28. The trade-in allowance policy practised currently by farm machinery companies almost always allows a greater value on an old machine than its depreciated value and occasionally even greater than its original purchase value.

29. It is a well known fact that farm machinery companies price their products and sell them like Arab rug peddlers. The resemblance between the list price of a farm machine and its real value is often illusionary.

30. It is ludicrous to suggest farmers be taxed on so-called "Capital Gains" of such transactions. The pricing practices of farm implement companies as they presently are conducted first require drastic overhaul and standardization of true value pricing.

31. Without changes in the merchandizing tactics of farm implement companies, farmers would be required to pay a Capital Gains Tax on a purely illusionary gain. It would make it difficult for them to maintain and modernize their farm machinery.

#### Taxation, Middle Income Farmer

32. As is the case in other similar income levels in other occupations and professions, the middle income farmer with taxable revenue from \$10,000 to \$25,000 will bear a disproportionate rate of taxation to the higher income groups.



One justification advanced for this proposal is the assumption that higher income earners invest greater amounts of risk capital.

33. We respectfully point out that all of a farmer's assets are a form of risk capital. The inability to determine production levels because of weather or government policy, imperfect market conditions, declining farm prices and rising farm costs make farming a total risk proposition at all levels.

34. A more equitable rate of taxation for middle income farmers is therefore fully justified.

#### Other Aspects of the White Paper

34. Not all aspects of the White Paper are regarded as detrimental to farmers.

35. We urge retention of the cash basis of accounting by the farmer as promised by the White Paper.

36. The retention of the averaging provision is necessary and is to continue.

#### Conclusion

37. The recommendations we have advanced in this submission reflect our genuine concern over the future of the farming industry in Canada. We respectfully suggest that under the combined effects of the present Estates Tax and the proposed Gift Tax and Capital Gains Tax provisions outlined in the White Paper, the family farm as we know it cannot long survive in the hostile climate for transition to succeeding generations which will be created. We urge re-examination and a more favorable philosophical approach toward the family farm than is now embodied in the White Paper.

38. Your careful consideration of our views is requested.

All of which is respectfully submitted by  
THE NATIONAL FARMERS UNION.









